

Tuesday, 1 December 2020

## Reserve Bank Policy Outlook

### What More Is There to Say?

- There was not a lot for the Reserve Bank (RBA) to say and do today that it had not already said and done in recent weeks.
- The RBA delivered a substantial package of policy stimulus only last month on November 3. The RBA Governor followed with a press conference and hit the podium several times after.
- The key takeaway point from today's statement is that the RBA remains prepared to do more if necessary.
- Last month, the RBA introduced a bond-buying program of \$100 billion for government bond maturities of five to ten years for six months. We think there is a good possibility that this program will be extended next year to run beyond six months.
- Reducing the high rate of unemployment remains an important national priority for the RBA. The RBA is placing greater weight on labour market outcomes and actual outcomes than previously.
- The RBA expects a further rise in the unemployment rate, as more people re-join the workforce and businesses continue to restructure in response to COVID-19. A fall in the unemployment rate is anticipated for next year, albeit the fall is expected to be modest. The RBA expects the unemployment rate will remain elevated at 6% by the end of 2022.
- The improvement in the jobs market expected by the RBA over the year ahead reflects the recovery underway in economic activity. The RBA reiterated that this economic recovery is underway. Notably, the RBA board also said recent data in Australia has "generally been better than expected".
- The recovery path is still expected to be "uneven and drawn out" in nature and reliant on significant policy support.

There was not a lot for the Reserve Bank (RBA) to say and do today that it had not already said and done in recent weeks. The RBA delivered a substantial package of policy stimulus last month on November 3. This package was designed to work through lowering lending rates, pushing up asset prices and putting downward pressure on the Australian dollar. These actions are expected to help boost cash flow for households and businesses, stimulating greater spending in the economy.

The RBA Governor followed with a press conference and hit the podium several times later in the month.

The key takeaway point from today's statement is that the RBA remains prepared to do more if necessary. The final sentence of the statement repeated this. In fact, the entire final paragraph

was unchanged. The paragraph suggests that the bond program could be enhanced if more support for the economy is needed.

Last month, the RBA introduced a bond-buying program of \$100 billion for government bond maturities of five to ten years for six months. We think there is a good possibility that this program will, next year, be extended beyond six months.

Today's statement also highlighted that addressing the high rate of unemployment remains a critical national priority. Indeed, the RBA is placing greater weight on labour market outcomes and actual outcomes than previously.

The RBA expects a further rise in the unemployment rate, from the current rate of 7.0%, as more people re-join the workforce and businesses continue to restructure in response to COVID-19. The RBA also anticipates that the unemployment rate will decline next year, albeit slowly. The RBA expects the unemployment rate will remain elevated at 6% by the end of 2022.

The improvement in the jobs market expected by the RBA over the year ahead reflects the recovery underway in economic activity. Tomorrow's national accounts should show that the Australian economy rebounded in Q3 by 3.0% after experiencing a severe recession in the first half of this year.

The RBA reiterated today that an economic recovery is underway. Notably, the RBA board said recent data in Australia has "generally been better than expected". However, the recovery is still expected to be "uneven and drawn out" and reliant on significant policy support. The RBA continues to expect that it will take until the end of 2021 for the level of GDP to reach the level attained at the end of 2019.

The recent news about a possible vaccine has been encouraging. We believe this recent vaccine news, if it materialises in reducing the spread and impact of the pandemic, could lead to better-than-expected economic outcomes.

Globally, the RBA points out that "news has been mixed recently". The rise in infection rates in the US and Europe was counterbalanced by positive news on the vaccine front. The former has won out so far with recoveries in these economics having "lost momentum". Whilst Australia's recovery is not losing momentum, Australia, like Europe and the US, remains heavily dependent on support from fiscal and monetary policy.

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